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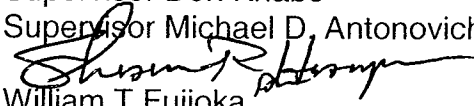
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November 6, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich
From: 
William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE – EXTRAORDINARY SESSION AND ECONOMIC STIMULUS PACKAGE

On November 6, 2008, the Governor issued a proclamation calling for an extraordinary session of the Legislature to address an estimated revenue shortfall of \$11.2 billion. In addition to dealing with fiscal and budget related matters, the session also will consider:

- legislation to address the economy, including but not limited to efforts to stimulate California's economy and create and retain jobs;
- the housing mortgage crisis; and
- the solvency of the Unemployment Insurance Fund.

Fiscal and Budget Related Matters

The Governor's solutions to the revenue shortfall are split almost evenly between revenue increases (\$4.7 billion), and expenditure reductions (\$4.5 billion). He also would tap the budget reserve adopted in the Budget Act of 2008 (\$1.7 billion). During his press conference, the Governor indicated that without swift action by the Legislature, the State will be out of cash by February 2009.

Revenue increases are derived from a temporary (3 year) 1.5 percent increase in the sales tax which would be effective on January 1, 2009. The sales tax base would be expanded on February 1, 2009, to include appliance, furniture and vehicle repairs; golf;

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and veterinarian services and, on March 1, 2009, to include amusement parks and sporting events. Expansion of the sales tax base would generate additional income for cities and counties and for local public safety funds. In addition, an oil severance tax of 9.9 percent would be imposed on January 1, 2009 on any private oil producer in the State, and alcohol taxes would be increased by a nickel per drink on the same date.

The proposed expenditure reductions would affect health, human services, public safety and other programs. Most of these reductions were proposed in the Governor's FY 2008-09 Proposed Budget and May Revision, but they were rejected by the Legislature. They include CalWORKs reform, the elimination of the Cash Assistance Program for Immigrants, Medi-Cal eligibility limitations, the elimination of State participation in IHSS wages above the State minimum wage rate, and reductions to public safety programs in COPS, Juvenile Justice Crime Prevention grants, and probation camps. Unfortunately, details are sketchy, in some cases the proposed reductions assume different effective dates, and it is not clear if the reductions are cumulative or represent new and deeper funding decreases. **We will be working with departments, Statewide associations, and the Sacramento advocates to answer these questions and to estimate the impact of these changes.**

Economic Stimulus Package

The Governor proposes to accelerate the appropriation of the remaining \$700 million in the Proposition 1B Local Streets and Highways Account for cities and counties that agree to encumber the funds by December 31, 2009. An additional \$800 million would be available for local transit agencies. Construction of some Proposition 1B projects administered by Caltrans would be expedited by waiving some environmental requirements. Expenditure of \$147 million in Propositions 84 and 1E water and flood projects would be accelerated. The Governor also proposes technical changes to AB 900 (Chapter 7, Statutes of 2007) to enable construction projects authorized in that measure to proceed and to address the capital needs for medical and mental health services in the correctional system. The Governor also proposes to grant discretion to employers on flex time schedules, meal and rest periods, and overtime rules to encourage employers to "keep jobs in-state." In addition, tax incentives would be available for new film and television production locating in the State and for film companies returning to California.

Housing Mortgage Crisis

The Governor proposes reforms to help homeowners to avoid foreclosure and to establish lending standards to prevent future mortgage crises. His proposal would

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attempt to reduce foreclosure rates by helping both borrowers and lenders modify existing home loans in ways that benefit both parties.

Solvency of the State's Unemployment Insurance Fund

During his press conference, the Governor indicated that the State's Unemployment Insurance Fund is on the brink of insolvency because benefits have been enhanced without a corresponding increase in payments to the Fund. The Governor is proposing to ask employers to pay more into the fund while tightening benefit eligibility.

The Governor's Special Session 2008-09 proposals are available at http://www.dof.ca.gov/documents/special_session_08-09_web.pdf.

We will continue to keep you advised.

WTF;GK
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